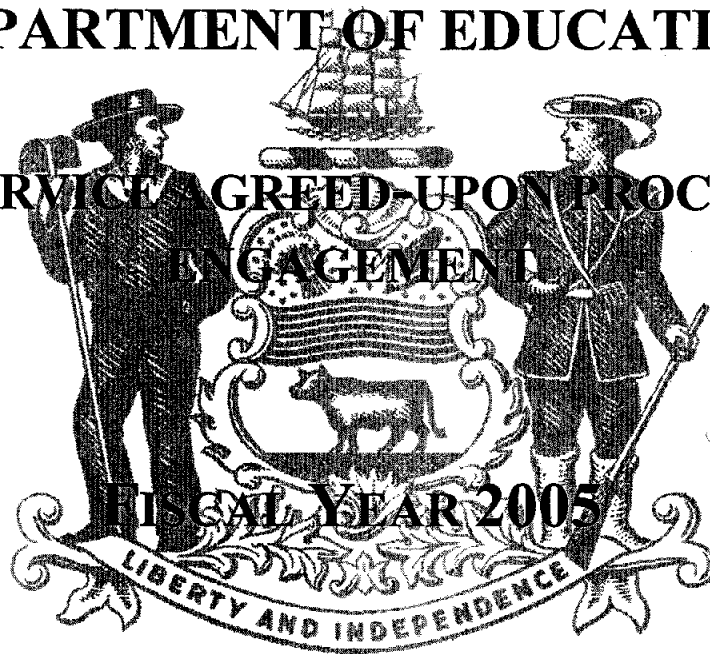


STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

DEPARTMENT OF EDUCATION

DEBT SERVICE AGREEMENT-UPON PROCEDURES
ENGAGEMENT



R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

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Independent Auditor's Report
on Applying Agreed-Upon Procedures

The Honorable Valerie A. Woodruff
Secretary
Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, DE 19901

We have performed the procedures enumerated below, which were agreed to by the Department of Education (DOE) and the following School Districts: Appoquinimink, Brandywine, Caesar Rodney, Cape Henlopen, Capital, Christina, Colonial, Delmar, Indian River, Lake Forest, Laurel, Milford, New Castle County Vocational Technical, Polytech, Red Clay, Seaford, Smyrna, Sussex Technical, and Woodbridge. The procedures were performed solely to assist the specified parties in determining that: (a) tax receipts were properly credited by each School District as authorized by the tax levy and (b) each District's June 30, 2005 debt service balance was sufficient, without being excessive, to pay principal and interest payments for the first four months of Fiscal Year 2006. The Board of Education of each School District is responsible to levy a tax sufficient to make payment of interest and principal on outstanding bonds.

This agreed-upon procedures attestation engagement was performed in accordance with *Government Auditing Standards* (2003), issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The Honorable Valerie A. Woodruff

Our procedures were as follows:

1. For all School Districts, except for the four restructured School Districts within New Castle County, recalculated the School Districts' real estate tax for current operations, debt service, tuition and minor capital improvements to verify the School District properly credited tax receipts into the State's DFMS.
2. Reviewed the debt service expenditures (principal and interest) to verify they were proper and in accordance with the amortization schedule provided by the Office of State Treasurer.
3. Compared the June 30, 2005 debt service reserve balances to the total required debt service payments for July 1, 2005 – October 31, 2005 to determine whether the debt service reserves were sufficient, without being excessive, to pay the bond principal and interest for the first four months of Fiscal Year 2006.
4. For the four restructured School Districts within New Castle County, tested DOE's September and October 2004 calculations to verify proper allocation of tax revenues.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department of Education and the School Districts identified above and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and the Department of Finance.

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

Engagement fieldwork completed
October 14, 2005

SCHEDULE OF FINDINGS

Procedure Agreed Upon #1

For all School Districts, except for the four restructured School Districts within New Castle County, recalculated the Districts' real estate tax for current operations, debt service, tuition and minor capital improvements to verify the District properly credited tax receipts into the State's DFMS.

Finding – Caesar Rodney School District

Due to clerical oversight, Caesar Rodney School District did not allocate tax receipts in accordance with the approved tax warrant. Incorrect allocation resulted in the following:

Current Expense (8000)	Over funded	\$ 572
Debt Service (8100)	Under-funded	\$14,519
Tuition Tax (8200)	Under-funded	\$ 283
Minor Capital (8400)	Over-funded	\$14,287
Technology Maintenance (8425)	Under-funded	\$ 57

Recommendation

Caesar Rodney School District calculate tax receipts based on approved tax warrants. Caesar Rodney School District provide oversight to ensure tax receipts are allocated in accordance with approved tax warrants.

Auditee Response

Caesar Rodney School District will calculate the tax receipts based on approved tax warrants and will employ a quality control mechanism to ensure that a second person reviews the tax receipt calculations.

Finding – Capital School District

Due to clerical oversight, Capital School District did not allocate tax receipts in accordance with the approved tax warrant. This resulted in the over-funding of debt service and under-funding of tuition by \$25,623, respectively.

Recommendation

Capital School District calculate tax receipts based on approved tax warrants. Capital School District provide oversight to ensure tax receipts are allocated in accordance with approved tax warrants.

Auditee Response

Capital School District acknowledges that an error in the allocation of tax receipts resulted in the over-funding of debt service and the under-funding of tuition tax. This occurred due to a clerical error in which appropriation 8100 was transposed for appropriation 8200. A cash adjustment document was entered into the Delaware Financial Management System on September 2, 2005 which corrected this error. A spreadsheet was developed, and is now in use, that will prevent similar clerical errors from occurring in the future.

SCHEDULE OF FINDINGS

Procedure Agreed Upon #3

Compared the June 30, 2005 debt service reserve balances to the total required debt service payments for July 1, 2005 – October 31, 2005 to determine whether the debt service reserves were sufficient, without being excessive, to pay the bond principal and interest for the first four months of Fiscal Year 2006.

Finding – Caesar Rodney School District

Caesar Rodney School District had an excessive debt service balance as of June 30, 2005. The Department of Education recommends a minimum 4-month reserve be maintained to provide adequate cash flow. The District had a June 30, 2005 debt service balance of \$1,458,030. Principle and interest payments for the period of July 1, 2005 through October 31, 2005 totaled \$497,940.

Recommendation

Caesar Rodney School District reduce its debt service tax rate.

Auditee Response

Caesar Rodney School District will review and analyze its debt service appropriation and cash flow needs based on current assessed property value of the Caesar Rodney School District. A recommendation will be made to the Caesar Rodney Board of Education to adjust the debt service tax rate.

Finding – Indian River School District

The Indian River School District did not have a sufficient balance in its debt service reserve, as of June 30, 2005, to pay the bond principal and interest for the period July 1, 2005 through October 31, 2005. The debt service balance as of June 30, 2005 was \$1,317,214; the required bond principal and interest payments for July through October 2005, totaled \$1,563,267. The Department of Education recommends a minimum 4-month reserve be maintained to provide adequate cash flow. Incomplete or out-dated information was used by the District in the calculation of tax rates for debt service.

Recommendation

Indian River School District obtain complete and up-to-date information from the Treasurer's Office regarding the District's Bonds. The District use the updated information when preparing calculations projecting debt service balances and expenditures and plan to accumulate a sufficient balance, without being excessive, to pay the first four months' principal and interest. The District use current, complete information when preparing calculations for the debt service tax rate for the next tax year (FY07), which will be submitted to the Sussex County tax office by July 1, 2006.

Auditee Response

The Indian River School District has communicated with the various audit staff regarding the aforementioned finding and performed an exhaustive evaluation of every spreadsheet

SCHEDULE OF FINDINGS

computation in order to identify the formula discrepancies. The computation discrepancies occurred when a bond amortization schedule was omitted from the computations resulting in a lower tax rate being recommended. This omission has been ameliorated and future computations will be more precise.

The Indian River School District will incorporate all bond amortization schedules and will recommend adjusting the tax rate in accordance to the identified procedures illustrated in the audit finding recommendation.

SCHEDULE OF PRIOR YEAR FINDINGS

The following schedule summarizes the prior year finding and the status of the prior year finding.

Prior Year Finding	Recommendation	Status of Prior Year Finding
As of June 30, 2004, Laurel School District's debt service balance was insufficient to pay the interest and principle on outstanding bonds through October 2004.	Laurel School District increase its tax rate so that the debt service account balance will be sufficient to satisfy debt service obligations. District personnel maintain current bond obligation schedules and properly monitor payment obligations before and after they occur.	Implemented

DISTRIBUTION OF REPORT

Copies of the Districts' Agreed-upon Procedures Attestation Engagement have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Jennifer Davis, Director, Office of Management and Budget

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable M. Jane Brady, Attorney General, Office of the Attorney General

Other

Dr. Joseph A. Pika, President, State Board of Education
Ms. Dorcell S. Spence, Associate Secretary of Education, Finance and Administrative
Services Branch, Department of Education
Mr. Jerry Gallagher, Director, Financial Management, Department of Education
Superintendents, All School Districts
Ms. Rebecca Surguy, CPA, State Accountant V, Division of Accounting, Department of
Finance

This report is also available at no charge on the Office of Auditor of Accounts website at www.state.de.us/auditor/index.htm or by requesting a copy in writing to:

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